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ORIGIN EB-07

INFO OCT-01 ISO-00 IO-10 AF-06 ARA-06 EA-06 EUR-12 NEA-09

AID-05 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 TRSE-00

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-01 CEA-01 FEA-01 IGA-01 DODE-00

PA-01 USIA-06 PRS-01 L-02 H-01 /121 R

DRAFTED BY EB/IFD/ODF:CKSTOCKER:BMH

APPROVED BY EB:RSGOLD

EB/IFD:PHBOEKER

----- 058993

R 261611Z FEB 75

FM SECSTATE WASHDC

TO ALL DIPLOMATIC AND CONSULAR POSTS

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INFORM CONSULS

E.O. 11652: N/A

TAGS: EFIN

SUBJECT: CURRENT ECONOMIC DEVELOPMENTS: INTERNATIONAL
DEVELOPMENT LENDING INSTITUTIONS

1. SUMMARY. THE INTERNATIONAL DEVELOPMENT LENDING
INSTITUTIONS (IDLI'S) HAVE MAJOR IMPORTANCE IN THE WORLD
ECONOMY. THEIR LENDING PROGRAMS ARE A SIGNIFICANT PART OF
WORLD AID. RECENT CHANGES IN THE WORLD ECONOMY, ESPECIALLY
THE MASSIVE INCREASE IN THE PRICE OF OIL AND ITS EFFECTS ON
OIL-RICH AND OIL-POOR COUNTRIES, HAVE PRESENTED THESE
DEVELOPMENT INSTITUTIONS WITH DIFFICULT POLICY ISSUES. THIS
REPORT GIVES BACKGROUND INFORMATION ON THESE INSTITUTIONS
AND ON CURRENT ISSUES BEFORE THEM. END SUMMARY.

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2. BACKGROUND ON THE IDLIS. THE UNITED STATES HAS PLAYED
A PIVOTAL ROLE IN THE ESTABLISHMENT OF THE PRESENT SYSTEM
OF MULTILATERAL DEVELOPMENT LENDING INSTITUTIONS (IDLIS).
THE LARGEST AND OLDEST OF THESE INSTITUTIONS IS THE WORLD

BANK, WHICH WAS ESTABLISHED AS PART OF THE BRETTON WOODS AGREEMENT IN 1945 TO HELP FINANCE THE RECONSTRUCTION OF EUROPE. AT PRESENT THE WORLD BANK GROUP HAS THREE COMPONENTS: THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD), WHICH CURRENTLY LENDS AT 8 AND ONE-HALF PERCENT INTEREST ON TERMS AVERAGING 20-25 YEARS; THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA), ESTABLISHED IN 1960, WHICH EXTENDS CREDITS TO COUNTRIES WITH A PER CAPITA

GNP OF DOLLARS THREE HUNDRED AND SEVENTY-FIVE OR LESS ON HIGHLY CONCESSIONAL TERMS: THREE-FOURTHS OF ONE PERCENT SERVICE CHARGE, 50 YEARS MATURITY INCLUDING 10 YEARS GRACE; AND THE INTERNATIONAL FINANCE CORPORATION (IFC), WHICH MAKES LOANS AT MARKET RATES AND EQUITY INVESTMENTS TO ENCOURAGE DEVELOPMENT THROUGH THE GROWTH OF PRIVATE ENTERPRISE IN LESS DEVELOPED COUNTRIES (LDCS). THE WORLD BANK GROUP NOW HAS 125 MEMBERS AND TOTAL LOANS THROUGH FISCAL 1974 OF DOLLARS 30.4 BILLION. THE FY-1975 BANK GROUP LENDING PROGRAM IS EXPECTED TO TOTAL DOLLARS 5.3 BILLION. INDIA WAS THE LARGEST SINGLE RECIPIENT ON COMBINED IBRD/IDA COMMITMENTS IN FY-1974 WITH DOLLARS 442 MILLION OR 10 PERCENT OF THE TOTAL PROGRAM. OTHER MAJOR RECIPIENTS WITH LOAN PROGRAMS OF DOLLARS 200 TO 300 MILLION WERE MEXICO, IRAN, BRAZIL AND TURKEY, WHILE THOSE IN THE DOLLARS 100 TO 200 MILLION RANGE WERE THE PHILIPPINES, ALGERIA, THAILAND, MOROCCO, INDONESIA, YUGOSLAVIA, MALAYSIA, ZAMBIA AND PAKISTAN. (OF THESE ONLY THAILAND, INDONESIA, AND PAKISTAN RECEIVED IDA LOANS.)

3. THE REGIONAL DEVELOPMENT BANKS ARE DESIGNED TO FIT THE NEEDS, INSTITUTIONS AND DIFFERENT SITUATIONS OF THE AREAS THEY SERVICE. THE INTER-AMERICAN DEVELOPMENT BANK (IDB), FOUNDED IN 1959, IS THE FIRST AND LARGEST OF THE REGIONAL BANKS. THE CREATION OF THE IDB WAS BASED ON THE BELIEF THAT LATIN AMERICAN COUNTRIES SHOULD ASSUME MORE RESPONSIBILITY FOR MANAGING THEIR OWN DEVELOPMENT AND PARTICIPATE LIMITED OFFICIAL USE
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IN DECISIONS ON THE USE OF FOREIGN ASSISTANCE. IN CY-1974, THE LENDING PROGRAM OF THE IDB TOTALLED DOLLARS 1.1 BILLION OF WHICH DOLLARS 471 MILLION WAS CONCESSIONAL LENDING FROM THE FUND FOR SPECIAL OPERATIONS (FSO). ESTABLISHED AS THE IDB CONCESSIONAL WINDOW, THE FSO LENDS AT 1 TO 4 PERCENT INTEREST OVER 25 TO 40 YEARS. THE U.S. ORIGINALLY CONTRIBUTED 83 PERCENT OF THIS FUND BUT IN THE LAST REPLENISHMENT IN 1971 OUR SHARE WAS 66 PERCENT. THE LATIN AMERICAN CONTRIBUTIONS TO THE FUND, WHICH ARE IN NON-CONVERTIBLE CURRENCIES, ARE OF LIMITED UTILITY BECAUSE THEY CAN BE USED ONLY IN THE CONTRIBUTING COUNTRY OR IN SELECTED OTHER COUNTRIES UNDER SPECIAL ARRANGEMENTS.

THE BANK'S ORDINARY CAPITAL TERMS ARE 8 PERCENT INTEREST WITH 15 TO 20 YEARS MATURITY. WHILE ALL THE LATIN AMERICAN MEMBERS CAN BORROW FROM THE BANK, THE LARGEST VOLUME OF ORDINARY CAPITAL LOANS DURING CY-1974 WENT TO BRAZIL, MEXICO, ARGENTINA AND CHILE. FROM THE FSO THE LARGEST BORROWERS WERE ARGENTINA, MEXICO, PARAGUAY, AND BOLIVIA. THE IDB HAS 24 MEMBERS WITH THAT NUMBER EXPECTED TO INCREASE THIS YEAR BY 2 ADDITIONAL REGIONAL MEMBERS AND 12 NEW NON-REGIONAL MEMBERS FROM EUROPE AND JAPAN. THE

NEW NON-REGIONAL MEMBERS WILL CONTRIBUTE DOLLARS 378 MILLION IN CASH TO THE CONCESSIONAL WINDOW, AND THE SAME AMOUNT TO THE ORDINARY CAPITAL, WITH ABOUT DOLLARS 52 MILLION PAID-IN AND THE REMAINDER CALLABLE. THE CONTRIBUTIONS WILL BE SPREAD OVER THREE YEARS.

4. THE ASIAN DEVELOPMENT BANK (ADB) WAS FOUNDED IN 1966 AS A RESULT OF ASIAN COUNTRIES' INITIATIVE IN THE ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST TO ESTABLISH A REGIONAL DEVELOPMENT BANK. WITH HEADQUARTERS IN MANILA, THE BANK HAS 27 REGIONAL MEMBERS AND 14 NON-REGIONAL MEMBERS INCLUDING THE U.S. ADB EXPECTS ITS LOANS IN CY-1975 TO TOTAL DOLLARS 700 MILLION, OF WHICH DOLLARS 250 MILLION WOULD BE ON CONCESSIONAL TERMS (1 PERCENT SERVICE CHARGE, 40 YEARS MATURITY INCLUDING 10 YEARS GRACE.) THE INTEREST RATE FOR ORDINARY CAPITAL LOANS WAS INCREASED IN FEBRUARY FROM 8 AND ONE-HALF PERCENT TO 8 AND THREE-QUARTERS PERCENT, WITH 10-27 YEAR MATURITIES. PAKISTAN, KOREA, INDONESIA, PHILIPPINES, BANGLADESH, LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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THAILAND AND VIETNAM HAVE BECOME THE BANK'S MAJOR BORROWERS.

5. THE U.S. HAS PARTICIPATED SINCE 1966 IN DISCUSSIONS WHICH LED TO THE ESTABLISHMENT IN 1973 OF A CONCESSIONAL LOAN FUND ASSOCIATED WITH THE AFRICAN DEVELOPMENT BANK (AFDB) (WHOSE MEMBERSHIP IS LIMITED TO INDEPENDENT AFRICAN COUNTRIES). FIFTEEN DEVELOPED COUNTRY DONORS HAVE CONTRIBUTED OR PLEDGED MORE THAN DOLLARS 100 MILLION TO THE FUND. THE ADMINISTRATION'S AUTHORIZATION REQUEST FOR DOLLARS 15 MILLION WHICH WOULD ENABLE US TO JOIN THE FUND HAS NOT YET BEEN PASSED. THE FUND IS ADMINISTERED BY A BOARD OF GOVERNORS SEPARATE FROM THAT OF THE AFDB AND IS WEIGHTED EVENLY BETWEEN REGIONAL AFDB MEMBERS AND NON-REGIONAL FUND DONORS, ASSURING DONORS A VOICE IN THE OPERATIONS. IN FY-74 17 LOANS TOTALLING DOLLARS 46.3 MILLION WERE MADE FROM THE FUND'S RESOURCES.

6. IMPORTANCE OF IDLIS TO U.S. POLICY. UNITED STATES PARTICIPATION IN THE IDLIS IS A NECESSARY COMPLEMENT TO

OUR BILATERAL ASSISTANCE PROGRAMS. THESE LENDING INSTITUTIONS MOBILIZE FOREIGN OFFICIAL FUNDS; TAP FOREIGN PRIVATE CAPITAL MARKETS; CHANNEL RESOURCES TO LDCS OF SPECIAL INTEREST TO US AS WELL AS THOSE IN WHICH WE MAY PREFER A DIMINISHED PRESENCE; AND MAKE HARD ECONOMIC RECOMMENDATIONS TO LDCS IN AN APOLITICAL MULTILATERAL CONTEXT. MOREOVER, THEIR DEVELOPMENT STRATEGY ENCOURAGES BORROWERS TOWARDS A MARKET-ORIENTED FRAMEWORK. FINALLY, THEY CONTRIBUTE TO THE STRUCTURE OF INTERNATIONAL COOPERATION BY PROVIDING AN EFFECTIVE FORUM FOR

CONSTRUCTIVE DIALOGUE BETWEEN INDUSTRIALIZED AND DEVELOPING COUNTRIES.

7. U.S. SHARE OF MULTILATERAL ASSISTANCE. DURING THE PAST DECADE, THE USG HAS PROVIDED AN INCREASING PERCENTAGE OF ITS ECONOMIC DEVELOPMENT ASSISTANCE THROUGH THE IDLIS. IN 1973 THE DIVISION OF OFFICIAL DEVELOPMENT ASSISTANCE DISBURSEMENTS WAS 79 PERCENT BILATERAL AND 21 PERCENT MULTILATERAL, UP FROM THE 1962 PROPORTION OF 96 PERCENT BILATERAL AND 4 PERCENT MULTILATERAL. AT THE SAME LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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TIME, THE U.S. RELATIVE SHARE IN THE CAPITAL OF THESE INSTITUTIONS HAS DECLINED AS OTHER MEMBER GOVERNMENTS HAVE INCREASED THEIR CONTRIBUTIONS AND THE IDLIS HAVE BORROWED MORE FROM CAPITAL MARKETS OUTSIDE THE U.S. IN FY-1974, FOR EXAMPLE, NONE OF THE DEVELOPMENT BANKS MADE ANY NEW BOND PLACEMENTS IN THE U.S. CAPITAL MARKET, WHILE THEY PLACED NEW BOND ISSUES TOTALLING DOLLARS 1.4 BILLION IN FOREIGN CAPITAL MARKETS. THE U.S. SHARE IN CAPITAL REPLENISHMENT OF THE IDLIS HAS ALSO SHOWN A DECLINING TREND. IN THE FIRST IDA REPLENISHMENT, FOR EXAMPLE, IT WAS 43 PERCENT, WHILE IN THE FOURTH, NEGOTIATED LAST YEAR, IT WAS ONE-THIRD (THIS MEANS THAT OTHER DONOR COUNTRIES CONTRIBUTED TWO-THIRDS OF THE NEW CAPITAL CONTRIBUTIONS).

8. THE U.S. PERCENTAGE SHARE OF CAPITAL AND VOTING POWER IN THE IDLIS IS AS FOLLOWS.

	U.S. CAPITAL CONTRIBUTION PERCENT	U.S. VOTING SHARE PERCENT
IBRD	25.7	22.9
IDA	31.2	24.5
IDB	40.3	40.3
ADB	8.9	7.6

IT IS WORTH NOTING THAT THE U.S. HAS A VETO POWER ONLY ON LOAN PROJECTS IN THE IDB FSO.

9. THE PERFORMANCE OF U.S. EXPORTERS IN OBTAINING IDLI FINANCED PROCUREMENT HAS BEEN UNEVEN. THIS IS NOT A QUESTION OF DISCRIMINATION AGAINST U.S. EXPORTERS, BECAUSE ALL IDLIS FOLLOW INTERNATIONAL COMPETITIVE BIDDING PROCEDURES. THE EXPECTED INCREASE IN BUSINESS TO U.S. SUPPLIERS, FOLLOWING TWO DOLLAR DEVALUATIONS AND RESULTANT IMPROVEMENT IN OUR COMPETITIVE POSITION, HAS NOT YET OCCURRED. IN FY-1974, U.S. SUPPLIERS RECEIVED THE FOLLOWING PERCENTAGES OF IDLI PROCUREMENT: ADB 16 PERCENT,

IBRD 17 PERCENT, IDA 15 PERCENT, AND IDB 48 PERCENT (IN CY-1973).

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10. STATUS OF CURRENT U.S. CONTRIBUTIONS. THE U.S. CONGRESS HAS SHOWN AN INCREASING RELUCTANCE TO AUTHORIZE AND APPROPRIATE THE AMOUNTS REQUESTED BY THE ADMINISTRATION FOR CONTRIBUTIONS TO THE IDLIS. FOR EXAMPLE, IN 1972 FAILURE OF THE CONGRESS TO PASS THE REQUESTED APPROPRIATION LEGISLATION FOR THE THIRD REPLENISHMENT OF IDA PUT THE U.S. ONE YEAR BEHIND THE INTERNATIONALLY AGREED SCHEDULE. IN THE IDB, THE U.S. WAS ONE YEAR BEHIND IN ITS ORDINARY CAPITAL CONTRIBUTIONS AND IS CURRENTLY TWO YEARS BEHIND IN ITS FSO COMMITMENTS. ALTHOUGH THE ADB ORDINARY CAPITAL INCREASE WENT INTO EFFECT IN 1972, THE CONGRESS HAS NOT YET APPROPRIATED THE FIRST TRANCHE OF THE U.S. CONTRIBUTION, THEREBY CAUSING OUR CAPITAL OWNERSHIP SHARE TO DROP FROM 20 PERCENT TO 9 PERCENT AS OTHER DONORS HAVE GONE AHEAD WITH THEIR CONTRIBUTIONS. CONSEQUENTLY, US VOTING SHARE HAS DROPPED FROM 16.5 PERCENT TO 7.6 PERCENT. PROSPECTS FOR PASSAGE THIS FISCAL YEAR ARE UNCERTAIN. OUR PARTICIPATION IN THE ASIAN DEVELOPMENT FUND WAS DELAYED WHEN CONGRESS FAILED TO APPROPRIATE THE REQUESTED DOLLARS 100 MILLION IN FY-1973 AND APPROPRIATED DOLLARS 50 MILLION INSTEAD OF THE DOLLARS 100 MILLION REQUESTED IN FY-1974. AS NOTED ABOVE, WE STILL DO NOT HAVE AN AUTHORIZATION FOR A DOLLARS 15 MILLION CONTRIBUTION TO THE AFDF.

11. IN FY-1975, THE FOLLOWING AUTHORIZATIONS WERE PASSED BY THE CONGRESS: FOURTH REPLENISHMENT OF IDA RESOURCES (IDA-IV) DOLLARS 1.5 BILLION (TO BE CONTRIBUTED OVER A FOUR-YEAR PERIOD BEGINNING FY-1976), ADB ORDINARY CAPITAL DOLLARS 362 MILLION (TO BE CONTRIBUTED OVER THREE YEARS), AND ASIAN DEVELOPMENT FUND DOLLARS 50 MILLION. THE DOLLARS 15 MILLION THREE YEAR AUTHORIZATION REQUEST FOR THE AFDF WAS PASSED BY THE SENATE BUT NOT ACTED ON BY THE HOUSE. ON THE APPROPRIATIONS SIDE, THE ADMINISTRATION REQUESTED FOR FY 1975 THE FOLLOWING AMOUNTS: IDA DOLLARS 320 MILLION, IDB/FSO DOLLARS 500

MILLION, ADB ORDINARY CAPITAL DOLLARS 121 MILLION AND ADB SPECIAL FUNDS DOLLARS 50 MILLION. ALL OF THESE ARE UNDER CONSIDERATION IN CONGRESSIONAL COMMITTEES, WITH QUESTIONABLE PROSPECTS FOR THE FULL AMOUNT OF THE IDB-FSO LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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CONTRIBUTION.

12. IN FY-1976, THE ADMINISTRATION IS CONSIDERING MULTI-YEAR AUTHORIZATIONS OF DOLLARS 1.2 BILLION FOR A NEW IDB ORDINARY CAPITAL REPLENISHMENT AND DOLLARS 600 TO

650 MILLION FOR THAT BANK'S FUND FOR SPECIAL OPERATIONS. IT WILL SEEK APPROPRIATIONS OF DOLLARS 375 MILLION FOR THE FIRST TRANCHE OF IDA-IV, DOLLARS 400 MILLION FOR THE FIRST TRANCHE OF NEW IDB ORDINARY CAPITAL, DOLLARS 121 MILLION FOR THE DELAYED FIRST TRANCHE OF ADB ORDINARY CAPITAL, (WHICH SHOULD HAVE BEEN CONTRIBUTED IN THE CURRENT YEAR), DOLLARS 50 MILLION FOR THE ASIAN DEVELOPMENT FUND, AND POSSIBLY DOLLARS 15 MILLION FOR THE AFDF IF WE CAN GET AUTHORIZING LEGISLATION.

13. CURRENT ISSUES. RECENT ECONOMIC DEVELOPMENTS HAVE BROUGHT EXCEPTIONAL WEALTH TO SOME DEVELOPING COUNTRIES, THE OIL PRODUCERS, AND SIGNIFICANT HARDSHIPS TO OTHERS, THE MOST SERIOUSLY AFFECTED (MSAS). SEVERAL NEW MECHANISMS FOR ASSISTING THE MSAS HAVE BEEN PROPOSED. WITHIN THE CONTEXT OF THE UN AN EMERGENCY OPERATION HAS BEEN ESTABLISHED, BUT THIS SETUP HAS RECEIVED LIMITED U.S. SUPPORT. THE ROLE OF THE IDLIS IN RESPONDING TO THE NEW SITUATION IS STILL IN PROCESS OF DEFINITION.

14. THE U.S. HAS RECENTLY PROPOSED ESTABLISHMENT OF A SPECIAL IMF-MANAGED TRUST FUND TO PROVIDE HIGHLY CONCESSIONAL FINANCING FOR THE POOREST DEVELOPING COUNTRIES. RESOURCES FOR THE FUND, WHICH MIGHT TOTAL DOLLARS 1.5 TO 2 BILLION, WOULD BE PROVIDED IN PART FROM VOLUNTARY CONTRIBUTIONS BY OIL PRODUCERS AND OTHERS, AND IN PART FROM THE SALE OF A PORTION OF IMF GOLD, IN EFFECT CAPTURING FOR THE MSAS THE INCREASE IN THE MARKET PRICE OF GOLD OVER THE OFFICIAL PRICE. LOANS WOULD BE MADE FOR A 10 YEAR PERIOD AT INTEREST RATES BELOW IMF CURRENT RATES OF 4-6 PERCENT. THE PROPOSAL RAISES NEW ISSUES FOR OTHER COUNTRIES AND FOR THE IMF WHICH WILL HAVE TO BE STUDIED AND WORKED OUT. THE RECENTLY ESTABLISHED IMF/IBRD JOINT COMMITTEE ON TRANSFER OF REAL RESOURCES (DEVELOPMENT COMMITTEE) DISCUSSED THE U.S. TRUST FUND PROPOSAL AS WELL AS A TRUST FUND SUGGESTED BY IRAN AT LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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ITS JANUARY 1975 MEETING AND REFERRED THESE TO THE BOARDS OF DIRECTORS OF THE IMF AND IBRD FOR FURTHER STUDY.

15. THE DEVELOPMENT COMMITTEE ALSO DISCUSS:D THE FEASIBILITY OF ESTABLISHING A QUOTE THIRD WINDOW UNQUOTE IN THE WORLD BANK TO PROVIDE ASSISTANCE ON TERMS BETWEEN THOSE OFFERED BY THE IDA AND THE IBRD. THEORETICALLY, FUNDS FOR THIS OPERATION WOULD BE OBTAINED BY THE IBRD BORROWING AS IT NORMALLY DOES. IN ORDER TO LEND AT LOWER THAN MARKET RATES (CURRENTLY AROUND 8.2 PERCENT) AN INTEREST RATE SUBSIDY FUND WOULD HAVE TO BE FINANCED FROM DONOR COUNTRY GRANTS. IT HAS BEEN ESTIMATED THAT DOLLARS 100 MILLION IN GRANTS COULD FINANCE DOLLARS 540 MILLION IN "THIRD WINDOW" LOANS AT 4 PERCENT INTEREST

OVER 30 YEARS. NEITHER THE EXACT TERMS NOR THE ELIGIBLE BORROWERS HAVE BEEN AGREED ON AS YET. IN ITS JANUARY MEETING THE DEVELOPMENT COMMITTEE CHARGED THE BOARD OF DIRECTORS OF THE IBRD TO STUDY THE CONCEPT AND MAKE RECOMMENDATIONS FOR THE JUNE DEVELOPMENT COMMITTEE MEETING IN PARIS.

16. VENEZUELA IS IN THE FINAL STAGES OF NEGOTIATING THE ESTABLISHMENT OF A DOLLARS 50 MILLION TRUST FUND IN THE IDB. THE FUND IS TO LAST FOR 25 YEARS, WITH AN EIGHT PERCENT RETURN TO THE GOV, AND IS TO BE USED FOR LOANS AND EQUITY INVESTMENTS IN POORER LATIN COUNTRIES TO DEVELOP NATURAL RESOURCES, AGRICULTURE, AGRO-INDUSTRY, TO FINANCE WORKING CAPITAL AND TO IMPLEMENT THE IDB EXPORT FINANCING PROGRAM. THE U.S. POSITION IS THAT, ALTHOUGH WE SUPPORT THE IDB'S EFFORTS TO AUGMENT ITS RESOURCES AND VENEZUELA'S INTENTION TO BECOME A SIGNIFICANT DONOR, WE ARE CONCERNED THAT THE FUNDS ARE BEING PROVIDED ON COMMERCIAL RATHER THAN CONCESSIONAL TERMS, ESPECIALLY SINCE LENDING BY THE FUND IS LIMITED TO POORER COUNTRIES, AND THE FACT THAT THERE IS LIKELY TO BE PRESSURE IN CONGRESS TO EMULATE THESE TERMS. WE ARE ALSO CONCERNED THAT THE TRUST FUND IS AUTHORIZED TO PURCHASE EQUITY POSITIONS IN EXISTING COMPANIES.

17. ANOTHER METHOD FOR INCREASING IDLI ASSISTANCE TO THE LIMITED OFFICIAL USE
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MSAS WOULD BE FOR THE OIL EXPORTERS TO INCREASE THEIR SHARE OF ORDINARY CAPITAL. IN THE IBRD, FOR INSTANCE, THE BANK MANAGEMENT HAS PROPOSED AN INCREASE OF OPEC SHARE CAPITAL TO 15 PERCENT FROM THEIR CURRENT 5 PERCENT SHARE, AND WE HAVE SUPPORTED THIS CONCEPT PROVIDED THAT SUCH INCREASES ARE ACCOMPANIED BY COMMENSURATE CONTRIBUTIONS TO IDA. WE BELIEVE SUCH CONTRIBUTIONS ARE NECESSARY TO

RETAIN CONGRESSIONAL SUPPORT FOR CONTRIBUTIONS TO THOSE FACILITIES. IN THE ADB, INDONESIA HAS ALREADY PURCHASED DOLLARS 137.5 MILLION ADDITIONAL ORDINARY CAPITAL SHARES.

18. THE USG IS CURRENTLY CONSIDERING WHAT POLICIES WOULD BE APPROPRIATE FOR THE IDLIS REGARDING LENDING AND BORROWING FROM OIL PRODUCERS, WHICH NOW HAVE CAPITAL SURPLUSES IN EXCESS OF THEIR CURRENT INVESTMENT REQUIREMENTS. WE ARE AGREED THAT THE IDLI'S SHOULD NOT LEND ON CONCESSIONAL TERMS TO OPEC COUNTRIES. REGARDING LENDING ON COMMERCIAL TERMS, THE U.S. EXECUTIVE DIRECTOR AT THE WORLD BANK MADE THE FOLLOWING POLICY STATEMENT LAST MONTH: QUOTE FOR THOSE RICHER OIL EXPORTING COUNTRIES WITH FINANCIAL RESOURCES IN SUBSTANTIAL EXCESS OF NEAR-TERM DEVELOPMENT NEEDS, THE BANK SHOULD REQUIRE EFFECTIVE 'BUY-BACK'

ARRANGEMENTS BEFORE ANY NEW LOANS ARE MADE, AND ALSO REQUIRE FULL REIMBURSEMENT FOR TECHNICAL AND MANAGERIAL ASSISTANCE. FOR POORER OIL EXPORTING COUNTRIES, WE COULD ENVISION LESS THAN FULL REIMBURSEMENT FOR TECHNICAL ASSISTANCE. LOANS TO OIL EXPORTING COUNTRIES WHICH DO NOT INCORPORATE 'BUY-BACK' PROVISIONS SHOULD BE CONSIDERED ON THE MERITS OF EACH SUCH COUNTRY'S SITUATION, AND SHOULD BE BASED ON ITS NEED FOR FINANCIAL SUPPORT, TAKING INTO ACCOUNT ITS CURRENT AND PROSPECTIVE ECONOMIC SITUATION AND FOREIGN EXCHANGE REQUIREMENTS. THE TOTAL OF ANY SUCH LOANS TO OIL EXPORTING COUNTRIES SHOULD BE CAREFULLY MONITORED, BEARING IN MIND THE PRESSING NEEDS OF OTHER DEVELOPING COUNTRIES FACING SERIOUS BALANCE OF PAYMENTS DEFICITS. UNQUOTE.

19. THE REASON FOR THE U.S. PREFERENCE FOR QUOTE BUY-BACK UNQUOTE ARRANGEMENTS IS THAT IN CONTRAST TO SALE OF IBRD BONDS TO BORROWING COUNTRIES, THIS TYPE OF ARRANGEMENT LIMITED OFFICIAL USE
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WOULD NOT ENCUMBER THE CALLABLE CAPITAL OF THE BANK, THAT IS, DRAW UPON THE GUARANTEE OF THE U.S. AND OTHER DONOR COUNTRIES' CAPITAL SUBSCRIPTIONS. IN EFFECT, BUY-BACK OF A LOAN BY A BANK BORROWER REMOVES THE TRANSACTION FROM THE BANK'S BALANCE SHEET. BANK MANAGEMENT HAS AGREED TO CONSULT WITH SOME OF ITS BORROWERS REGARDING THE POSSIBILITY OF BUY-BACKS.

20. UNTIL FY-1973 THE IDLI'S PLACED A LARGE SHARE OF THEIR BONDS ON THE U.S. MARKET. IN FY-1973 AND 1974 THE IDLIS DID NOT USE THE U.S. MARKET BUT TURNED INCREASINGLY TO OIL EXPORTER CAPITAL MARKETS. FOR EXAMPLE, THE IBRD PLACED IN FY-73 77 PERCENT OF THEIR BONDS IN OIL EXPORTING COUNTRIES, IN FY-74 - 26 PERCENT AND TO DATE IN FY-75 - 63 PERCENT. THESE SALES

HAVE SOME ADVANTAGES BOTH FOR THE IDLIS AND US. WE PREFER TO SEE OIL EXPORTER SURPLUSES IN LONGER-TERM DEBT INSTRUMENTS SUCH AS IDLI BONDS RATHER THAN SHORT-TERM NOTES AND DEMAND DEPOSITS. ALSO WE WELCOMED THE BANKS' MEETING THEIR CAPITAL REQUIREMENTS ELSEWHERE WHEN OUR OWN CAPITAL MARKETS WERE BURDENED. THERE MAY BE CAUSE FOR CONCERN IN THE CURRENT CONCENTRATED PATTERN OF BORROWING BECAUSE OF THE POTENTIAL CALL ON THE GUARANTEE CAPITAL OF THE CURRENT LARGE CAPITAL CONTRIBUTORS. THE IDLIS' ABILITY TO DIVERSIFY THEIR SOURCES, HOWEVER, WILL DEPEND ON THE STATE OF THE CAPITAL MARKETS IN DEVELOPED MEMBER COUNTRIES.

21. CONCLUSION. THE IDLIS HAVE DEMONSTRATED THEY ARE

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FLEXIBLE DYNAMIC INSTITUTIONS WHICH CAN ASSIST THE LDCS WITH ECONOMIC DEVELOPMENT PLANS EVEN UNDER CURRENT CONDITIONS. THE ADMINISTRATION WILL CONTINUE TO GIVE THE IDLIS STRONG SUPPORT AND SEEK TO MOBILIZE GREATER SUPPORT IN THE CONGRESS. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, INFORMATION CONTROL, FINANCIAL COOPERATIVES, DEVELOPMENT BANKS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 FEB 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE043145
Document Source: ADS
Document Unique ID: 00
Drafter: EB/IFD/ODF:CKSTOCKER:BMH
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: D750068-0935
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750287/baaaagsn.tel
Line Count: 456
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 9
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 21 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 MAY 2003 by ifshinsr>; APPROVED <21 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: EFIN, XX, US
To: ALL DIPLOMATIC AND CONSULAR POSTS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006